

License to Sue?

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I. Brief Introduction to the Licensing Issues Wrought by *MedImmune*

Courts, commentators and practitioners have for too long viewed intellectual property law as a discrete discipline, without putting it into the proper theoretical context of general jurisprudence. Intellectual property law cannot and must not exist on its own, outside the normative framework of overlapping legal institutions. Even within the rubric of intellectual property, courts have overlooked the potential for cross-applying relevant doctrines between patent, copyright, and trademark law. Certainly, when intellectual property disputes touch on other disciplines, such as civil procedure, contract, or tort law, courts have tended to overlook their synergies, focusing instead on only one of several important policies or principles. The result has gone beyond missed opportunities. It has led to judicial mistakes, including in the very recent, and broad-based 2007 U.S. Supreme Court case of *MedImmune v. Genentech*.² The Court's errors have far-reaching implications for the future of the law and its practice.

The full version of this article examines the intersection of normative values between intellectual property and contract law. Utilizing graphic illustrations in tables and diagrams, the article proposes a more appropriate interdisciplinary framework for cases involving intellectual property licenses.³ Courts, litigants, and license negotiators may employ this matrix in order to reach more rational and informed decisions.

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² *MedImmune v. Genentech*, 127 S.Ct. 764 (2007).

³ A prior article discussed the intersection of normative values between intellectual property and a particular area of civil procedure, declaratory judgment standards. See Lorelei Ritchie de Larena, *Re-evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes* 83 Ind. L. J. ____ (forthcoming 2007)(hereinafter "Re-evaluating Declaratory Judgment"). This article examines the intersection of normative values between intellectual property and contract law in the realm of intellectual property licensing.

II. The *MedImmune* Conundrum

A. The Federal Circuit's Misguided Standard

In the past three years, the Federal Circuit Court of Appeals has decided a trilogy of cases involving the right of a licensee to sue for patent invalidity without first breaching or terminating the license agreement.⁴ In each case, the Federal Circuit applied its self-styled declaratory judgment standard requiring that a DJ plaintiff have “reasonable apprehension” of a lawsuit by the patentee before a DJ suit can be ripe.⁵ In doing so, the Federal Circuit rendered its own -- although perhaps not deliberate -- version of the intersection of the normative values of contracts, civil procedure, and intellectual property law.⁶ The Federal Circuit was incorrect in its understanding, though, and therefore applied an improper DJ standard, far outside the bounds of general jurisprudence.⁷

The U.S. Supreme Court granted *cert.* on one of the cases this term, *MedImmune v. Genentech*.⁸ In its decision, rendered on January 9, 2007, the Court unsurprisingly -- and correctly -- scolded the Federal Circuit for using a misguided DJ standard. The DJ point should have been sufficient, since it was the basis for *cert.* The Supreme Court need not -- and, it turns out, should not -- have gone further. The DJ standard was a mere footnote for the Supreme Court however (literally, footnote 11), which went on to give its own interpretation of intellectual property licensing. Instead of considering and balancing the normative values of contracts, civil procedure, and intellectual property law, the Court dove into a confused discussion of the perils of weak patents, and the coercion supposedly pressed upon unwitting licensees by abusive patent owners.

B. The Underlying Issue

MedImmune licensed technology from Genentech via an agreement executed in 1997. The license agreement defined the licensed technology as including both an issued patent (known as “Cabilly I”), and one pending before the U.S. Patent and Trademark Office (known as “Cabilly II”). In 2001, after fighting various lengthy legal battles, Genentech finally obtained a patent grant from the U.S. Patent and Trademark Office on Cabilly II.

⁴ *Gen-probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004)(no breach, no standing); *acc. MedImmune v. Centocor*, 409 F.3d 1376 (Fed. Cir. 2005)(vacated on *cert.*); *MedImmune v. Genentech*, 427 F.3d 958, 964 (Fed. Cir. 2005)(reversed on *cert.*).

⁵ See *MedImmune, Inc. v. Genentech, Inc. and City of Hope and Celltech R&D, Ltd.*, 427 F.3d 958 (Fed. Cir. 2005) Majority, written by Pauline Newman; Judge Mayer concurring, Judge Clevenger dissenting, but only on the refusal of the Federal panel to transfer the antitrust issues to the regional circuit.

⁶ Although it appears that the court did not consider it in such terms or it would more likely have reached the correct conclusion in the first place.

⁷ See *Re-evaluating Declaratory Judgment*, *supra* note 2.

⁸ 126 S.Ct. 1329 (2006). Due to the similar (indeed nearly identical) facts and issues of *MedImmune v. Centocor*, one week after issuing its decision in *MedImmune v. Genentech*, Supreme Court vacated that Federal Circuit ruling as well, and remanded for proceedings consistent with its opinion in the *Genentech* case. *MedImmune v. Centocor*, 459 US ____ (2007) (2007 WL 91450 January 16, 2007).

Genentech advised MedImmune of the “good news” -- and of Cabilly II’s purported application to MedImmune’s main product, *Synagis*®.⁹

MedImmune did not react by terminating its license agreement with Genentech. MedImmune did not stop paying royalties. MedImmune did not breach the license agreement. But neither did MedImmune wish to be obligated to Genentech for the full patent term of Cabilly II. Instead, MedImmune decided to test its luck with the courts. While still a licensee in good standing, MedImmune initiated a declaratory judgment suit to invalidate Cabilly II. Genentech opposed with a F.R.C.P., Rule 12(b)(1) motion to dismiss for lack of subject matter jurisdiction. The district court granted the motion based on Federal Circuit precedent.¹⁰ The Federal Circuit affirmed.

MedImmune declared that it must be allowed to bring suit, since, after all, licensee estoppel had been abolished by *Lear*. Genentech countered -- and the Federal Circuit agreed -- that *Lear* merely allowed a *former* licensee to sue *after* breaching or terminating a license agreement. A current licensee in good standing simply has no case or controversy under Article III. The Supreme Court granted *cert.*¹¹

C. The Supreme Court Decision

The Supreme Court rendered its decision in *MedImmune v. Genentech* on January 9, 2007. The decision made some progress in the area of declaratory judgment standards for intellectual property disputes by disapproving the Federal Circuit’s favored “reasonable apprehension” test. On the issue of licensee estoppel, however, the 8-member majority (and to some extent the Thomas dissent) evidenced a fundamental misunderstanding of the interdisciplinary approach necessary for intellectual property licensing. That mistake led to a misguided and incorrect holding.

Despite probing questions during oral argument, the Court’s decision did not properly frame the nature of the dispute.¹² Disappointingly, the Court failed to appropriately

⁹ These were the facts as considered by the U.S. Supreme Court on *cert.*, for purposes of determining the appropriateness of declaratory judgment jurisdiction on Genentech’s motion to dismiss for lack of subject matter jurisdiction. *MedImmune v. Genentech*, 127 S.Ct. at 767.

¹⁰ In particular, based on the earliest case of the trilogy which was decided by the Federal Circuit while this case was at the district court level. *See Gen-probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004).

¹¹ The Supreme Court framed the question in its January 2007 decision:

We must decide whether Article III’s limitation of federal courts’ jurisdiction to ‘Cases’ and ‘Controversies,’ reflected in the ‘actual controversy’ requirement of the Declaratory Judgment Act, 28 USC § 2201(a), requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.

MedImmune v. Genentech, 127 S.Ct. 764 (2007). Although framing the proper question, unfortunately the Supreme Court confused the issues and gave the wrong answer.

¹² On oral argument, the justices properly placed a heavy focus on the terms of the contract at issue and how far a contract could go in restricting conduct by the patentee or by the licensee. However, the

characterize the issue as being at the intersection of contracts, civil procedure, and intellectual property law. Accordingly, the Court did not consider the apposite normative values of each of these legal doctrines in order to correctly balance them. Instead, the Court looked only briefly at contract law. Then, eerily like its predecessor Court in *Lear*, the Court cast aside the contracts analysis altogether, and instead clung to a specious understanding of patent law and licensing practice. Unfortunately but unsurprisingly, the Court's misguided analysis led to an incorrect decision.

As with the *Lear* Court, the *MedImmune* majority first properly inquired as to whether the petitioner had alleged a contractual dispute. As with the *Lear* Court, the *MedImmune* majority then went on to ignore its own question.¹³ In doing so, as with the *Lear* Court, the *MedImmune* majority committed two fundamental errors. First, the Court overlooked the importance of balancing the normative values of contract law in its analysis, thereby relying exclusively on patent law as the basis of its decision.¹⁴ Second, the Court went further awry by failing to properly analyze the balance of interests within patent law. As a result, the Court's rationale rested on a misguided understanding of patent law and of licensing practice.

First, in determining the propriety of declaratory judgment jurisdiction, the Court confused the petitioner's claim of patent invalidity with its claims of noninfringement and unenforceability. Due to this confusion, the Court suggested that a claim of patent invalidity was equivalent to a claim of noninfringement in raising a justiciable claim under the licensing contract. That is not accurate. A licensee's challenge to patent validity is a challenge to the very nature of the contract itself, the purported consideration. Certainly, this challenge can be brought during the term of the license, but it must be done as a contractual action on the standard grounds allowed by contract doctrine, at the convergence with patent law.¹⁵ Noninfringement, conversely, is actually a question of the *scope* of contractual obligations. So for example, in the *MedImmune* case, the licensee could certainly bring a declaratory action for noninfringement and/or unenforceability, on grounds of law (contract terms do not include Cabilly II) or fact (Cabilly II claims do not cover Synagis®). A challenge to the scope of the contract would not require breach or termination, but it would of course (as the Supreme Court should have recognized) be strictly a cause of action under applicable state contract law.

interesting questions raised by the justices seem unfortunately to have fallen by the wayside in their ultimate decision.

¹³ The majority simply inquired as to whether a contractual question had been presented, briefly concluded that it had been mentioned in the briefs, and then went on to say, "[h]aving determined that petitioner has raised and preserved a contract claim, we turn to the jurisdictional question." *Id.* at 770.

¹⁴ The dissent did not even perceive a contract dispute. "As a threshold matter, I disagree with the Court's characterization of this case as including a 'contractual dispute.'" *Id.* at 779.

¹⁵ These are discussed in Part II(C) of this article, and are illustrated in Table II, *supra*, including failure of consideration, mistake, and illegality. Note that this could be brought as a state law cause of action during the term of the license. Patent validity could also be brought as a federal cause of action in a DJ suit by the licensee after termination or breach. Despite the Supreme Court's misguided ruling to the contrary in *MedImmune*, an active licensee in good standing does not satisfy the federal DJ standard of "actual case." See *Re-evaluating Declaratory Judgment*, *supra* note 2.

Second, the Court mistakenly characterized a licensing situation as inherently “coercive,” and akin to government regulatory action.¹⁶ This is incorrect. No one really believes that licensors on aggregate hold more power in licensing negotiations than the licensees who bring their products to market in return for a cut of the profit in upfront fees and/or royalties. Perhaps the Court was mistaking the “troll” phenomenon for one where all patentees are wildly outpacing technology users,¹⁷ but that is simply not the case, and certainly in many situations licensees have more power than their licensors.¹⁸

Perhaps also, the Court was misled by one characterization of the facts of this case. In particular, the Court acknowledged that Petitioner had been confronted by its licensor with a letter expressing the licensor’s belief that Petitioner’s activities were covered by licensor’s newly issued continuation patent.¹⁹ The Court could have viewed the letter as a simple correspondence between two business partners, or as a friendly update. Instead, the Court’s opinion referred to this letter as a “clear threat.”²⁰ That characterization may well have tipped the scale in favor of the majority’s view of licensing as a “coercive” action, but the Court was wrong to make that leap.²¹ There is nothing inherently coercive

¹⁶ *Id.* at 772-773. This really misses the mark, and demonstrates how the Court overlooked contract law in its analysis. The Court should have recognized that a license to use or practice intellectual property -- like any other contract -- is generally assumed to be a voluntary agreement, freely negotiated, between informed parties. If MedImmune believed it had been coerced into this particular licensing contract under duress, fraud, or some other illegality, it should invoke that defense to rescind the contract as a matter of state law. The *MedImmune* Court was mistaken in believing that such coercion should be assumed simply because the licensor holds a patent that is being used (voluntarily) by the licensee. Furthermore, in a correct conclusion, the Court acknowledged that the DJ standard previously used by the Federal Circuit for patent cases was overly restrictive and should be aligned with that of general jurisprudence. *Id.* at fnnt 11. Hence, the licensee could sue for patent invalidity under federal law but, -- as would be clear if the Court had taken the proper view of contract law -- that should be allowed only after the licensee has somehow repudiated the contract. Ultimately, the licensee has lots of valid legal choices on how to proceed without the Court having provided a false one by its failure to contemplate contract principles in its discussion of intellectual property licensing. The Court mistakenly relied for its conclusion on the earlier case of *Alvater v. Freeman*, 319 US 359 (1943), which allowed licensees to challenge a patent while still paying royalties. That case was based on a different premise though, since the royalties were compelled by an earlier court injunction, and not by a simple license agreement, or even consent decree or court settlement, between the parties.

¹⁷ For further analysis on the “troll” phenomenon and its true implications as a hold-up problem, see Mark A. Lemley, *Are Universities Patent Trolls?* (available at <http://ssrn.com/abstract=980776>, last visited June 25, 2007).

¹⁸ Although inaccurate in this case, the U.S. Supreme Court’s characterization of licensing as coercive follows its recent spate of rulings favoring user rights in technology, and encouraging challenges to weak patents. See *Merck KGaA v. Integra Lifesciences, Ltd.*, 125 S.Ct. 2372, 2380 (2005); *EBay Inc. v. MercExchange*, 126 S.Ct. at 1840; *MedImmune v. Genentech*, 127 S.Ct. 764 (2007); *KSR Intern. Co. v. Teleflex*, 127 S.Ct. 1727 (2007).

¹⁹ The newly issued continuation, known as “Cabilly II” had apparently been contemplated by the parties and included in the definition of “Licensed Products” that would be subject to royalty payments.

²⁰ *Id.* at 768.

²¹ The characterization of the letter as a “clear threat” harkens back to the facts of a somewhat analogous copyright case. *Hal Roach Studios, Inc. v. Richard Feiner & Co.*, 896 F.2d 1543, 1556, n23 (9th Cir. 1990). There, DJ jurisdiction was found appropriate by the 9th Circuit, even though, as in *MedImmune*, the license was still active. Incidentally, although the *MedImmune* Court did not cite *Hal Roach* for this point, the case had been cited by Petitioner in its brief, so it may well have affected the Court’s reasoning. It is worth noting that the Thomas dissent disagreed with this characterization of licensing, referring to it as “a

about licensing negotiations, and if the Court had properly considered contract doctrine in the balance, it would have observed that licensing is a form of contract like any other, that simply happens to be at the convergence of contracts and intellectual property law, and should be subject to the standard tenets of contract law, including, where relevant, duress, unconscionability, or other illegality, as examined in Part II(D) and (E) and illustrated in Diagrams A and B of this article, *supra*.

III. Reconciling Contract and Intellectual Property Law, post-*MedImmune v. Genentech*

News of the *MedImmune* decision spread rapidly through the business community. Reactions are not yet clear however. In reality, the greatest shock on all sides was simply that the U.S. Supreme Court focused its attention on an obscure aspect of the case (licensing negotiation), and based its decision on an incorrect assumption (that licensees are coerced into unfair agreements). Certainly, the Court has caused confusion, and there is a need for legal damage control. That said, the decision may -- and should -- be kept in proper perspective by courts, litigants, and license negotiators.

The cloud left by *MedImmune* derives from the Court's failure to openly characterize (and perhaps failure to even recognize) intellectual property licensing as being at the intersection of contract and intellectual property law. In that omission, the Court missed a great opportunity to reconcile their convergence,²² as well as their apparently diverging doctrines (that is, the convergence between contract illegality and intellectual property law).²³ If the Court had properly cast the issues, the proper doctrine would have naturally followed. In the *MedImmune* case, that would have meant a denial of even baseline DJ jurisdiction at this stage,²⁴ and silence on the question of whether the licensee has a contractual claim under state law that may be invoked either now or later.²⁵

The silver lining, though, is the reawakening to licensing as not solely a creature of intellectual property. While the Court somewhat muddled the waters, it is consistent with the *MedImmune* decision to characterize contract law as properly governing intellectual property licensing disputes. Although the Court did not ultimately make that point clear, it did at least give some support for that proper conclusion, which can be carried forth by

voluntary choice to enter an agreement." *Id.* at 780. Indeed there is no contractual -- or other legal -- bar against a "threat" of asserting a lawful right brought in good faith. *See Hackley v. Headley*, 45 Mich. 569, 8 N.W. 511 (Mich. Sup. Ct. 1881); *Alaska Packers' Assoc. v. Domenico*, 117 F. 99 (9th Cir. 1902).

²² *See* Part II(C) of this article and Diagram A, *supra*.

²³ *See* Part II(D) of this article and Diagram B, *supra*.

²⁴ There was no federal question presented in a "concrete dispute" as to patent validity where the licensee and licensor were actively engaged in a license agreement in good standing. Although the Supreme Court misunderstood this and granted baseline DJ jurisdiction, it at least left it to the district court on remand to consider a denial of DJ jurisdiction on discretionary grounds. *MedImmune v. Genentech*, 127 S.Ct. 764, 777 (2007).

²⁵ State law contract claims might include, for example, a possible claim of lack of consideration based on an invalid patent, a possible claim of non-breach based on the scope of license as not including licensee's present activities; and possible claims of illegality -- including duress, as the Supreme Court presumed in this case, but which should have to be brought as a contract claim for rescission.

lower courts in future intellectual property disputes, or indeed in the final resolution of this one on remand.

Meanwhile, licensing parties remain largely unaware of the desirability, or the possibility, of simply following standard contract doctrine in their negotiations. Instead, they are struggling to understand the post-*MedImmune* landscape without clear context. This has led to some unnecessary apprehensions. The Licensing Executive Society presents a good barometer of the sentiment in the business community post-*MedImmune* since the group represents both licensors and licensees, and therefore does not take a position favoring either side.²⁶ Just a few weeks after the January *MedImmune* decision was announced, LES released results of a post-*MedImmune* survey, revealing that 79% of respondents (again, representing both licensors and licensees) believed that licensees would now be “more likely” to challenge patents after signing a license agreement.²⁷ Survey respondents also apparently expect licensors to insert lots of barriers into post-*MedImmune* license agreements in order to avoid patent validity challenges, or at least to avoid being locked into a license while a challenge is litigated.²⁸

There are several reasons why this is a premature, and furthermore unnecessary, scare. First, the Supreme Court did not say that *MedImmune* will win its patent validity challenge. The Court did not even say that the substance of the claim will ever be litigated. In fact, on oral argument, the justices suggested that while the suit might survive a F.R.C.P., Rule 12(b)(1) challenge to dismiss on subject matter jurisdiction,²⁹ it might not survive a Rule 8 challenge (or any other number of possible procedural challenges).³⁰ Second, even if *MedImmune*’s suit proceeds to verdict, it may be dismissed on substantive grounds under contract doctrine, such as estoppel.³¹ Finally, there are simply the realities of licensing negotiations that will face both frightened licensors and newly “empowered” licensees.

²⁶ The LES brief in *MedImmune*, which presented unresolved licensing issues (still unresolved today, but mostly put on the back burner since the Supreme Court raised new, more pressing issues), was filed, interestingly, “In Support of Neither Party.”

²⁷ See results at Press Report 2-22-07, posted at www.usa-canada.les.org/press/archives/3.15.07.asp (last visited June 6, 2007). The 79% includes those who say licensees would be “somewhat more likely” or “much more likely” to challenge patents after signing a license agreement. It is unclear from the press report how many of those responding were frightened licensors rather than prowling licensees.

²⁸ *Id.*

²⁹ Which it has not yet, since the district court must now determine the appropriateness of granting jurisdiction on discretionary grounds.

³⁰ This issue was raised as a question by Justice Ginsburg on oral argument in the Oct. 4 hearings on *MedImmune*, as to whether the licensee estoppel issue was really better addressed as a 12(b)(6) motion, or even an 8(c) defense. Oral Argument (8:8-16; and 40:6-9).

³¹ Contractual estoppel might be found on the ground that a licensee cannot both enjoy the benefit of a license and litigate its validity simultaneously. This is distinguishable from licensee estoppel (abolished by *Lear*), which would bar *MedImmune* from ever pursuing a patent validity claim against its licensors. Contractual estoppel could act to bar the claim during the term of the license. Of course if a licensee were contractually bound by a license not to terminate for any reason during the term of a patent (which was not the case for *MedImmune*), then the proper remedy would be a contractual claim of illegality on the doctrine of patent misuse. It is arguable, though, whether such provision would constitute patent misuse, or simply savvy negotiating by the licensor. In either case, the licensee does have remedies available for rescission, but must elect its course of action.

Certainly licensors will seek to include lots of litigation barriers in their post-*MedImmune* license agreements. Of course licensors already, pre-*MedImmune*, would include as many favorable clauses for themselves as they could skillfully negotiate into a license. That is simply the nature of negotiation. Licensors will try to include covenants not to sue in their new license agreements.³² Licensors will seek to include provisions where royalties rise if patent (or copyright/trademark) validity is challenged.³³ Licensors will try to get more money upfront. Most already did that pre-*MedImmune*. After all, even pre-*MedImmune*, a bird in the hand was worth many more in that unpruned bush of patent litigation, where validity could be challenged by even a third party, thereby ending the nice stream of royalty income in any given license.³⁴

Licensees, meanwhile, will tend to fight for the diametrically opposing provisions that favor them instead. Licensees will do as they did pre-*MedImmune*, negotiating for whatever provisions work in their interest. Licensees will negotiate against covenants not to sue, and indeed will instead try to negotiate covenants *to sue*, and perhaps royalties that go down -- or are owed in reverse by the licensor to the licensee -- if a suit is brought, and/or won by the licensee.³⁵ Some licensees will actually bring suit, but probably not too many more than did pre-*MedImmune* since the Supreme Court did nothing to lower the costs, or to increase the certainties, of patent litigation.³⁶

Ultimately, the Supreme Court did not really change the balance of power in licensing negotiations. None of the potentially available devices (covenant not to sue, etc.) was squarely addressed by the Court in *MedImmune*. Therefore, all are of unclear legal status. In fact, they should all be allowed as a general rule under contractual law, and in any given case may be litigated under such contractual defenses as unconscionability, duress, misuse, or other illegality.³⁷ These should be addressed on a case by case basis though, and not as a generality in licensing law, since indeed every individual license and negotiation will vary in its power balance as well as its terms.

³² On oral argument, Justice Scalia alluded that a licensee's contractual covenant not to sue might be enforceable *MedImmune v. Genentech*: (Case No. 05-608; Transcript of argument Oct. 4, 2006) (4:19-23), although Justice Kennedy did not seem convinced (5:6-12).

³³ Another possibility raised by Justice Roberts is a provision raising the royalty rate upon determination of validity. Oral Argument (7:9-12).

³⁴ See *Litigated Patents*, *supra* note 95, finding that about 46% of litigated patents are held invalid in final judicial action.

³⁵ A few variations on this theme were bandied about on oral argument by Justices Ginsburg and Stevens. Justice Ginsburg suggested the possibility of raising the royalty rate if a licensee sues with a validity challenge (10:16-18). Justice Stevens brought up the possibility of a provision allowing the licensee to sue and withhold royalty payments if it prevails (33:11-33). Both are very interesting possibilities.

³⁶ See *Valuable Patents*, *supra* note 95, finding: "Total direct litigation costs for the median patent case with between \$1 million and \$25 million at stake were \$2 million *per side* in 2003." So, while some licensees might now choose to both license and litigate, the undertaking is expensive and risky. The Supreme Court's *MedImmune* decision will more likely impact troll licenses -- also impacted by *eBay* already. So, the confluence of *MedImmune* plus *eBay* probably will mean more licensing instead of injunctions by troll licensors, and then more declaratory actions brought by the licensee. Meanwhile, the Federal Circuit's precedent that fees are still owed if challenge is dismissed is probably still the reigning law. See *supra* note 103.

³⁷ See Part II(C) of this article, *supra*, and Table III.

Interestingly, the Supreme Court may soon grant *cert.* on another intellectual property licensing case that may possibly bring some clarity.³⁸ The issue raised in the *Quanta cert.* petition is whether a sale of a product may be made conditionally, or whether that violates the well-established “first sale doctrine” also known as “patent exhaustion.”³⁹ Unfortunately, as frankly disclosed by the *Lear* majority on the issue of licensee estoppel, the lack of clarity on patent exhaustion has similarly been plagued by years of inconsistent Supreme Court and appellate rulings.⁴⁰ Fortunately, there is an answer here -- and better yet, one that can be useful in resolving the remaining open issues in intellectual property licensing.⁴¹ Specifically, the Supreme Court may use the *Quanta* case to fill in the gaps it left open after *MedImmune*. While the Court naturally does not have the authority to rule on issues not present in the current case,⁴² the Court can simply state the overriding doctrine that it should have recognized in the *MedImmune* case -- that, is, that intellectual property licensing sits at the intersection of contract and intellectual property law, which can -- and should -- be resolved by applying the standard principles of contract doctrine.⁴³

Characterizing these -- and other licensing matters -- as contract disputes would still allow courts to take into account intellectual property doctrine, including antitrust and misuse issues that may arise when a patentee abuses its position in order to control the end market for its product or method. Such characterization would have the benefit, meanwhile, of leading courts to correct holdings using contract doctrine, instead of inconsistently trying to apply patent (or copyright/trademark) law in a vacuum.⁴⁴ Table V, in Appendix (Tables), presents a compilation table, with an interdisciplinary approach to resolving issues in intellectual property licensing disputes.

³⁸ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 2006 WL 3877339 (Nov. 30, 2006), petitioning for writ of certiorari from *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364 (Fed. Cir. 2006)(rehearing and rehearing *en banc* denied).

³⁹ *Id.* at 2. The “first sale doctrine” or “patent exhaustion” refers to the right of a purchaser to use, resell, or otherwise transfer an item otherwise protected by patent. See *Motion Picture Patents Co. v. Universal Film Mfg'g Co.*, 243 U.S. 502 (1917); *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942); cf. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)(private parties maintain the freedom to contract regarding conditions of sale). Copyright has a similar doctrine, codified at 17 USC § 109, as does trademark, applied by analogy, *Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1448 (11th Cir. 1998). A recently published article on the topic of licensing restrictions and the “first sale doctrine” notes four ways that intellectual property is brought to the market: “Owners of intellectual property can choose to sell the intellectual property, license the intellectual property, sell products that embody the intellectual property, or license products that embody the intellectual property.” Elizabeth I. Winston, *Why sell what you can license? Contracting around Statutory Protection of Intellectual Property*, 14 G.M. L. Rev. 93 (2006). See also Jessica Litman, *The Tales that Article 2B Tells*, 13 Berkeley Tech. L.J. 1391 (1998).

⁴⁰ This is demonstrated by the confusion caused between the cases cited in note 103, *supra*, with different reactions by different courts purporting to apply the same doctrine of patent exhaustion. The Supreme Court has the opportunity to resolve this disparity if its grants *cert.* in the *Quanta* case.

⁴¹ See Part III(B) and Table III of this article, *supra*, regarding open issues in licensing.

⁴² U.S. Const. art. III.

⁴³ See Part II(C) of this article *supra*. Note that Federal Circuit did somewhat acknowledge that this can be addressed by contract law, but quickly dropped the ball on that analysis. *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006)(rehearing and rehearing *en banc* denied).

⁴⁴ Violations of such agreements, therefore should properly be prosecuted by intellectual property owners as contract, and not patent (or copyright/trademark) infringement, actions.

IV. Conclusion

The U.S. Supreme Court has several times been remiss in its treatment of intellectual property as a separate and discrete discipline of law. In fact, intellectual property cannot and should not be siphoned off from the normative framework of general jurisprudence. In particular, the Court has misjudged cases involving intellectual property licensing. Several times the Court has mistakenly viewed these cases as involving pure intellectual property issues. This mischaracterization overlooks the importance of viewing licensing cases as being at the intersection of contract and intellectual property law, neither one to the exclusion of the other. By missing this important opportunity, and indeed need, for interdisciplinary analysis, the Court has failed to provide the proper legal framework for courts, litigants, and license negotiators to use in making rational and informed decisions.

This article attempts to fill that gap by probing the legal doctrine, undertaking a normative analysis of the issues, and finally, proposing a comprehensive, interdisciplinary framework for examining cases involving intellectual property licensing. By recasting the issues, and properly viewing the need for an interdisciplinary approach, courts, litigants, and license negotiators may use the tools provided by this article and accompanying tables to reach the proper balance both within the branches of intellectual property, and between intellectual property and contract law.

APPENDIX: (TABLES)

Table V: Compilation Table: An Interdisciplinary Approach to Resolving Issues in Intellectual Property Licensing Disputes⁴⁵

LICENSING ISSUE IN LITIGATION	INTELLECTUAL PROPERTY LAW INPUT	CONTRACT LAW INPUT	CONVERGENCE OF NORMATIVE VALUES	LITIGATION RESULT
Patent/copyright/trademark/trade secret is invalid and/or unenforceable (action by licensee).	Federal question established only if “actual case or controversy.” ⁴⁶	Possible bases for contract action: 1. Lack of consideration; 2. Fraud (if inequitable conduct); 3. Lack of “good faith and fair dealing” (if should have known); 4. Mistake.	Contractual illegality as reason to rescind. ⁴⁷	State law contract action. No federal question, unless “actual case or controversy.” ⁴⁸
Patent/copyright/trademark/trade secret is not infringed (action by licensee)		Action on scope of the contract.	Implement the reasonable expectations of parties. ⁴⁹	State law contract action. ⁵⁰ No federal question, unless “actual case or controversy.” ⁵¹
Breach for nonpayment (action by licensor)	Not a federal question. ⁵²	Standard state law contract action.	Implement reasonable expectations of the parties. ⁵³	State law contract action.
Breach for nonconformance with license agreement: 1. Licensee sues despite covenant not to do so; 2. Licensee does not observe trigger event on	Not a federal question. ⁵⁴	Standard state law contract action.	1. Encourage settlement of past and future disputes. ⁵⁵	State law contract action.

⁴⁵ Only Table V is included in this excerpted paper. The full version of *License to Sue?* contains various tables and diagrams.

⁴⁶ See *MedImmune v. Genentech*, 127 S.Ct. 764 (2007). Trade secret claim, or a commonlaw trademark claim, would be determined under applicable state law.

⁴⁷ See *Sherwood v. Walker* (mistake); *Austin Instr., Inc. v. Loral Corp.*, 29 N.Y.2d 124, 272 N.E.2d 533 (Ct. App. 1971)(duress); *Woollums v. Horsley*, 93 Ky. 582, 20 S.W. 781 (Ct. App. 1892)(unconscionability).

⁴⁸ In the recent *MedImmune v. Genentech*, 127 S.Ct. 764 (2007), the Supreme Court determined that baseline jurisdiction existed for a federal declaratory judgment action, even though the license was active and unbreached. Nevertheless, the Court acknowledged that the action may not proceed either due to discretionary DJ dismissal, or due to other procedural or substantive obstacles. See Part V of this article, *supra*, for a discussion on how to interpret the ruling. Meanwhile, the decision may be distinguishable anyway since the Court saw a “clear threat” by licensor to sue licensee if the contract were breached. So, it is possible to view the decision as being based on that narrow ground. The decision would probably be the same for a federally enforceable copyright or trademark. A trade secret claim, or a commonlaw trademark claim, again, would be determined under applicable state law.

⁴⁹ See *Tymshare Inc. v. Covell*, 727 F.2d 1145 (D.C. Cir. 1984).

⁵⁰ See *Lear*, 395 U.S. at 661-662: “construction of [the] licensing agreement is solely a matter of state law.”

⁵¹ See comments in note 199.

⁵² See comment from *Lear* in note 201, *supra*. Moreover, despite the *Lear* Court’s apparent belief that patent law trumps contract law in licensing cases, this issue should properly be viewed as being at the intersection of contract and patent law, and generally standard contract rules, including the convergence of contractual *illegality* and intellectual property law (see Diagram B, *supra*), should guide the response

⁵³ See *Tymshare Inc. v. Covell*, 727 F.2d 1145 (D.C. Cir. 1984).

increasing royalty. (action by licensor) 3. Licensor does not observe trigger event on decreasing royalty. (action by licensee)			2./3. Parties may contract to predict future outcomes. ⁵⁶	
Coercion to enter or renew license agreement (action by licensee)	Misuse/ Antitrust.	Duress.	Contractual illegality as reason to rescind. ⁵⁷	State law contract action. No federal question, unless “actual case or controversy.” ⁵⁸

⁵⁴ See comments in note 203, *supra*.

⁵⁵ See *Brian Contr. & Devlpmt Co. v. Brighenti*, 176 Conn. 162, 405 A.2d 72 (1978); *Marton Remodeling v. Jensen*, 706 P.2d 607 (Utah Sup. Ct. 1985).

⁵⁶ See *Drennan v. Star Paving Co.*, 51 Cal.2d 409, 333 P.2d 757 (Cal. Supr. Ct. 1958); *Batsakis v. Demotsis*, 226 S.W.2d 673 (Tx. Ct. Civ. App. 1949).

⁵⁷ See *Sherwood v. Walker* (mistake); *Austin Instr., Inc. v. Loral Corp.*, 29 N.Y.2d 124, 272 N.E.2d 533 (Ct. App. 1971)(duress); *Woollums v. Horsley*, 93 Ky. 582, 20 S.W. 781 (Ct. App. 1892)(unconscionability).

⁵⁸ See comments in note 199, *supra*.